

ARIZONA TAX NEWS



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Arizona Department of Revenue Mission Statement

The purpose of the
Arizona

Department of Revenue is to promote voluntary compliance with all tax obligations through fair administration, firm enforcement, and prompt and courteous service in a manner that justifies the highest degree of public confidence in our efficiency and integrity.

Arizona Department of Revenue Advisory

(This is an addendum to Arizona General Tax Procedure 95-2)

Powers of Attorney

Arizona General Tax procedure GTP 95-2 specifies power of attorney documents acceptable by the Department of Revenue. One of the acceptable documents listed in the procedure is a federal power of attorney form (federal Form 2848) if the federal form has been modified to address Arizona taxes. Currently, a taxpayer must cross out the phrase "Internal Revenue Service" and then insert the phrase "Arizona Department of Revenue" on lines 2 and 8 of federal Form 2848. The taxpayer must also insert the appropriate Arizona tax type

(e.g., Arizona individual income tax), and the appropriate Arizona tax form number on line 3 of federal Form 2848. The taxpayer must initial all of the changes and inserts. Effective April 1, 1998, the taxpayer may use federal Form 2848 without having to cross out the phrase "Internal Revenue Service. However, the taxpayer must insert the phrase "and Arizona Department of Revenue" after the phrase "Internal Revenue Service" on lines 2 and 8 of federal Form 2848. The taxpayer must still insert the appropriate Arizona tax type (e.g., Arizona individual income tax), and the appropriate Arizona tax form number on line 3 of federal Form 2848. The taxpayer must still initial all of the inserts.

E-File Hot Sheet For 2001 Process Year E-File Update

IRS Electronic Signature
Program
10-11-2000

The Arizona Department of
Revenue is exploring the possibility

of utilizing the IRS PIN (personal identification number) program as an option to the AZ-8453 signature document requirement for the 2001 tax-filing season. If successful in our

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***** REMINDER *****

FOR NON-EFT TPT FILERS

To avoid a delinquency, postmark your October 2000 TPT return no later than November 27th or deliver to DOR no later than November 29, 2000.

August Summary of General Fund Revenues

	<u>August 2000</u>	<u>Fiscal Year Total</u>
Individual Income Tax		
Net Collections	\$154,503,435	\$299,808,341
Percent Change *	8.6%	9.1%
Corporate Income Tax		
Net Collections	\$3,758,039	\$27,474,054
Percent Change *	314.8%	52.0%
Transaction Privilege, Severance & Use Taxes		
Net Collections	\$233,666,133	\$494,695,259
Percent Change *	5.7%	8.3%
Total Big Three Tax Types		
Net Collections	\$391,927,607	\$821,977,654
Percent Change *	7.6%	9.7%

() Decrease from same month last year.

* Percent change from same month last year.

Individual Income Tax

Individual Income Tax Receipts

	<u>August 2000</u>	<u>August 1999</u>	<u>Change</u>
Gross Collections	\$15,854,444	\$13,701,875	15.7%
Withholding	192,705,500	179,201,951	7.5
Refunds	(21,018,789)	(19,127,425)	9.9
Urban Rev Sharing	(33,037,720)	(31,475,916)	5.0
Net Collections	\$154,503,435	\$142,300,485	8.6
Fiscal Year Total			
	(99/00)	(98/99)	Change
Gross Collections	\$25,424,051	\$22,193,771	14.6
Withholding	376,788,515	345,781,017	9.0
Refunds	(36,328,785)	(30,341,685)	19.7
Urban Rev Sharing	(66,075,440)	(62,951,832)	5.0
Net Collections	\$299,808,341	\$274,681,271	9.1

We're on the Web!

The Arizona Tax News can be downloaded by accessing our Internet webpage
www.revenue.state.az.us

TAX CALENDAR

NOVEMBER 2000

Due Date		For Period Ending
10	State Holiday - Veteran's Day,	All State Offices Closed
15	Income Tax Returns:	7/31/00
	Form 120: Corporation	
	Form 140: Individual	
	Form 141: Fiduciary	
	Form 165: Partnership	
15	Form 120: Corporation with Automatic Extension	1/31/00
15	Form 120S: S Corporation	8/31/00
15	Form 99: Exempt Organization Annual Information Return	6/30/00
	Form 99T: Exempt Organization	7/31/00
15	Form 120ES: Estimated Tax Payment, Corporation	
	First Installment	7/31/01
	Second Installment	5/31/01
	Third Installment	2/28/01
	Fourth Installment	11/30/00
20	Form TPT-1: Transaction Privilege Tax:	
	October Monthly Filers	10/31/00
20	Bingo: Financial Reports	10/31/00
20	Luxury Tax: Various Forms	10/31/00
27	EFT Form TPT-1 and Payment:	
	Transaction Privilege Tax:	
	October Monthly Filers	10/31/00
23	State Holiday - Thanksgiving,	All State Offices Closed

The Arizona Tax News is a monthly publication of the Arizona Department of Revenue. Information contained herein is of a general nature and is not designed to address complex issues in detail. Taxpayers requiring information concerning a specific tax matter should contact the appropriate office. This newsletter is available in alternative formats upon request by calling the telephone number shown below. Subscription information may be obtained from Tony Manzo at (602) 542-3062 or toll free 1 (877) 863-0655.

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attempt, those who choose to participate in the IRS PIN program *may* also elect to have the IRS Electronic Signature piggy-back or apply to their state return. This would eliminate the need for submitting the AZ 84553 to the Arizona Department of Revenue – with one exception:

Claiming credit 309 (Taxes Paid to Another State) the taxpayer cannot participate in the Arizona Shared IRS PIN program, but they may still e-file the state return provided the requirement to sign and send the AZ 8453 or AZ 8453OL with all required supporting documentation is met. In other words, if a 309 Credit is involved the "Shared IRS PIN" feature cannot be elected and an AZ 8453 or AZ 8453 OL *must* be submitted.

Changes to E-File for The 2001 Tax Season 10-11-00

The following forms are *eliminated* from the Arizona e-file program:

140PTC - Property Tax Credit
313 - Alternative Fuel Vehicle
Credit
326 - Credit for Alternative Fuel
Delivery Systems
327 - Vehicle Refueling Apparatus
Credit
328 - Neighborhood Electric
Vehicle (NEV) Credit

A paper return must be filed with all required attachments when any of these forms (140PTC or any alternative fuel credit forms) are part of a filing. This means you can NOT file an electronic return and include the 140PTC or any alternative fuel credit form as an attachment to the AZ 8453 or AZ 8453OL.

Model City Tax Code Changes

Cave Creek Change In City Tax Code Effective December 1, 2000

The Mayor and Town Council of the Town of Cave Creek passed Ordinance No. 099-03. Ordinance No. 099-03 increases the Town Privilege Tax Rate from 2% to 2.5% for the following classifications and shall be reported using Code CK, and Use tax Code CK2:

Advertising, Amusements, Construction contracting, Feed at wholesale, Job printing, Publishing, Hotels, Timbering and other extraction, Rental of real property, Rental of tangible personal property, Retail, Restaurants and bars, Telecommunications, Transporting

for hire, Use tax.

Utilities will remain at 3% and shall continue to be reported using Code CK1. The Additional tax on transient lodging will remain at 4% and be reported using Code CK3.

This increase does not apply to ongoing contracts entered into prior to December 1, 2000. Pre-existing contracts shall remain at the 2% rate and be reported using Code CK9.

Sierra Vista Change In City Tax Code

Effective November 1, 2000

The Mayor and City Council of the Town of Sierra Vista passed Ordinance No. 1119. Ordinance 1119 deletes Local Option B. Deleting Option B deletes Sec. 280-Transactions with governmental agencies, and establishes paragraph (n) of Sec. 465-Retail Exemptions, relating to sales made directly to the federal government.

Sales made directly to the Federal Government are exempt to the extent of:

- One hundred percent (100%) of the gross income derived from retail sales made by a manufacturer, modifier, assembler, or repairer.
- Fifty percent (50%) of the gross income derived from retail sales made by any other person.

Williams Change In City Tax Code

Effective December 1, 2000

The Mayor and City Council of the City of Williams passed Ordinance No. 803. Ordinance No. 803 eliminates the two-tier tax for retail sales. All Retail sales shall be at a rate of 3% and

reported using Code WL. Code WL1 will no longer be valid.

Food for home consumption shall be taxed at the rate of 2% and reported using Code WL2.

Chino Valley Changes In City Tax Code

Effective November 1, 2000

The Mayor and Town Council of the Town of Chino Valley passed Resolution No. 569 and Ordinance No. 417. Ordinance No. 417 deletes Model Option 15 from the Town tax code. Deleting Option 15 has the effect of establishing Sec. 600 through 660 to the town tax code. Sec. 600 imposes a Town Use Tax on tangible personal property acquired for use or storage within the town limits. The rate for Use Tax shall be 2% reported using Code CV2. The Use Tax on Jet Fuel shall be \$0.015 per gallon and shall be reported using Code. CV9.

Ordinance No. 417 also adopts Local Option LL. Option LL establishes a tax on Jet Fuel. The privilege tax on Jet Fuel shall be \$0.015 per gallon and shall be reported using Code CV8. The town has adopted Model Option 5B. Option 5B changes the taxability for Rental of Real

Property. Both Residential Rentals and Commercial Rentals of Real Property are taxable when one property is available for rent. The exemption for two residential properties is no longer available.

There is established an Additional Tax on Transient Lodging in the amount of 2% reported using Code CV3. This is in addition to the 2% tax under the privilege tax for a total of 4% for vendors in the Hotel/Motel, Transient Lodging business.

The Town of Chino Valley also adopted Model Option #9 which removes the allowance for factoring of a "flat fee" in retail repair service into parts and labor "computed charges". All service items must be separately stated to be considered non-taxable retail sale labor.

2000 Transaction Privilege Tax Legislative Summary

HB 2287: Renewable Energy; Tax Incentive (CH.214)

- Amends the prime contracting classification to add a deduction for the retail cost of solar energy devices that a contractor supplies and installs pursuant to contracts. The deduction is limited to the cost of the device to the contractor. The deduction does not apply to the installation of the device. This deduction is set to expire on January 1, 2011. In addition, a technical correction is made with reference to the deduction for the construction of a lake facility development.
- Provides that the deduction added under the prime contracting classification applies retroactively to from and after December 31, 1996.
- Adds a new A.R.S. § 43-1030 to provide an income tax subtraction for selling an energy efficient residence and amend A.R.S. § 43-1022 to implement the subtraction. The subtraction is applicable to individuals, partnerships, and fiduciaries that file estate or trust income tax returns. The subtraction does not apply to corporations.

Under new A.R.S. § 43-1030, a taxpayer that sells one or more new single family residences, condominiums or town houses, that exceed the 1995 model energy code by 50% or more as determined by an approved rating system, may take a subtraction for 5% of the sales price, excluding certain amounts. The subtraction cannot exceed \$5,000 with respect to each single-family residence, condominium, or town house.

The Arizona Department of Commerce Energy Office is responsible for annually reviewing the threshold eligibility rating, and for increasing the qualifying rating by 5% if the number of homes receiving a subtraction in a single year exceeds 5% of the new homes built in Arizona as estimated by the Energy Office. The Energy Office is also required to provide the Department of Revenue with an annual list of the criteria used to determine an energy efficiency rating that qualifies for a subtraction.

This new subtraction is applicable to taxable years beginning from and after December 31, 2001 through December 31, 2010.

HB 2334: Municipal Telecommunications; Franchises (CH.397)

Provides, in part, an exemption under the telecommunications classification for sales of Internet access services. The amendment separates ARS § 42-5064(A) into two paragraphs. Paragraph 1 deals with the current deduction for sales of intrastate telecommunications. Paragraph 2 adds a deduction for "sales of Internet access

services to the taxpayer's subscribers and customers." This proposed amendment also provides definitions of "Internet" and "Internet access."

A similar exemption is added to ARS § 42-6004 prohibiting the cities to tax Internet access fees.

HB 2385: Contracting Classification; Exterminators; Exemptions (CH.33)

Amends the prime contracting classification to exempt insect extermination, except pre-

treatments, from transaction privilege tax. This proposal is retroactive to December 31, 1993.

HB 2624: Supplemental Air Carriers; Classification; Exemption (CH.401)

Broadens the exemption to include sales to a person holding a supplemental air carrier certificate under federal aviation regulations (14 Code of Federal Regulations part 121). The existing statutes exempt sales of such equipment made to a person holding a federal certificate of public convenience and necessity

or a foreign air carrier certificate or a foreign air carrier permit.

This act applies retroactively to taxable periods beginning from and after May 31, 1998. All claims for refund must be filed by December 31, 2000. The maximum revenue impact from the refunds is \$10,000.

SB 1055: County Juvenile Facilities (CH. 387)

Allows a county excise tax on TPT if a majority of qualified electors approve an ad valorem property tax for a district that includes juvenile detention facilities or if the electors approve the inclusion of juvenile detention facilities in an existing jail district. The excise tax is set at a maximum 5% of the state rate. Also, provides a county use tax that will "piggyback" the state use tax imposed on utility services purchased from out-of-state vendors.

In 1999, A.R.S. § 42-6110 was enacted to impose a county use tax on electricity purchased from an electrical supplier. This "general" statute is available to all counties other than Maricopa County. The statutes vary as to whether the county board of supervisors will approve the county use tax, or whether the imposition of tax will be resolved at a countywide special or general election. Contains an emergency provision.

SB 1531: Spaceport; Launch Site; Exemption (CH. 359)

Adds a deduction under the prime contracting classification for gross proceeds of sales or gross income derived from a contract entered into for the construction of a launch site, as defined in 14 code of federal regulations, part 401.5.

Also adds a deduction from the tax base under

the prime contracting classification for gross proceeds of sales or gross income derived from a contract entered into for the construction of a domestic violence shelter that is owned and operated by a nonprofit charitable organization that has qualified under section 501(c)(3) of the internal revenue code.

Arizona Corporate Tax Ruling CTR 00-2

ISSUE:

When are taxpayers united by a bond of direct or indirect ownership or control in order to file a combined return?

RULING:

- A. If one individual or entity has direct ownership or control of more than 50 percent of the voting stock of two or more corporations, unity of ownership exists among the corporations under A.R.S. § 43-942(A) and A.A.C. R15-2-1131(E).
- B. If indirect ownership exists, such as when a parent corporation owns a chain of corporations, the fact that an intervening corporation in that chain is not a member of a unitary group, for reasons other than unity of ownership, will not prevent the unitary combination of lower tier members with other corporations higher in the chain.
- C. Stock is owned when title to the stock is directly held. In addition, stock is considered indirectly owned when title to the stock is constructively owned.
- (1) An individual will generally be considered to constructively own stock that is owned by any of the following:
- (a) his or her spouse, children, including adopted children, who have not attained the age of 21 years,
- (b) An estate or trust, of which the individual is an executor, trustee, or grantor, to the extent that the estate or trust is for the benefit of that individual's spouse or children.
- (2) Stock owned by a corporation is constructively owned by any shareholder owning stock that represents more than 50 percent of the voting stock of the corporation.
- (3) Stock owned by a partnership is constructively owned by any partner, other than a limited partner, in proportion to the partner's capital interest in the partnership.
- (a) For this purpose, a partnership is treated as owning proportionately the stock owned by

any other partnership in which it has a tiered interest, other than as a limited partner.

- (b) In any case where a member of a commonly controlled group, or shareholders, officers, directors, or employees of a member of a commonly controlled group, is a general controlling partner in a limited partnership, stock held by the limited partnership is owned by a limited partner to the extent of its capital interest in the limited partnership.
- D. When minority shareholders cumulatively own or control more than 50 percent of the voting stock of two or more corporations and have common voting patterns, substantially equal ownership percentages, and the corporations share substantial contribution or dependency, there is an inference that the shareholders are a concerted group and as such shall be required to file a combined return if all unitary requirements are met.
- (1) If two or more shareholders, cumulatively owning or controlling in excess of 50 percent of the voting stock of two corporations, are members of the same family, there is an inference that the family members constitute a concerted group and meet the ownership requirements in A.R.S. §§ 43-941 and 43-942. (See Example #4 above.)
- E. Evidence of combined ownership or control of voting stock by a group of shareholders will require examination of all of the facts and circumstances, including the business relationship of the corporations sought to be combined, shareholder relationships, the degree of common ownership, and the relative percentage of ownership or control by each shareholder.

*For more information
see the complete CTR 00-2 at the
Arizona Department of Revenue Website:
www.revenue.state.az.us*

Town Hall for Taxes

Attend this free workshop and find out what tax credits you may be eligible for!

This two hour session is your opportunity to understand income tax credits available to you and your family. Attend this forum to learn how to reduce your tax liability by finding information about the many tax credits the State of Arizona offers to you, the taxpayers of Arizona. Department experts will be present in a live forum to answer your questions!

Where:

Flagstaff – November, 9, Council Chambers, 211 W. Aspen

Glendale – November 6, Glendale Library, 5959 W. Brown, Sponsored by Glendale Library

Kingman – November 14, Board of Supervisors Board Rm, 809 E Beall St

Mesa – November 16, RendezVous Center, 263 N. Center

Payson – November 20, Council Chambers, 303 N. Beeline Hwy.

Phoenix – October 24, City of Phoenix, 200 W. Washington, 1st floor

Tucson – November 21, Council Chambers, 255 W. Alameda, 1st floor

Yuma – November 15, County Library, 350 Third St.



All Times: 7 – 9 PM

For More Information Please call 602-542-3062 or toll-free in Arizona 1-877-863-0655

RESERVATIONS ARE NOT NEEDED. With 72 hours notice, appropriate accommodations can be provided to individuals with disabilities.

Please call at (602) 542-3062. If you are hearing impaired, please call TDD: in Maricopa County, (602) 542-4021, or toll free, statewide 1-800-397-0256.